FRANKLIN TEMPLETON

Franklin Intermediate High Yield Municipal SMA

Commentary | as of September 30, 2026

Key Takeaways

- **Markets:** In the third quarter of 2026, new issuance of municipal (muni) bonds continued at a record pace, with issuance 8% higher than the third quarter of 2025 and year-to-date volume running 6% ahead of last year (Source: Bloomberg). By quarter-end, the yield on the benchmark 10-year US Treasury (UST) note had risen by 82 basis points (bps) to 5.28% - its highest level since mid-2007 - while the yield on the 30-year UST bond was 68 bps higher at 5.63%. The September Federal Open Market Committee (FOMC) meeting raised the fed funds target range by 25 bps to 3.75%–4.00%. Given that the hike was almost fully priced into the bond market, the genuinely new information was that the FOMC leans toward another increase, thus shifting the rates debate from a one-hike risk to how high a new tightening cycle might ultimately go.
- **Contributors:** Positions in munis with five years or less to maturity.
- **Detractors:** Duration exposure and an overweight to bonds with 10 years or more to maturity. Overweight exposure to BBB rated bonds.
- **Outlook:** Municipal bond valuations are compelling relative to other fixed income sectors, in our view, giving investors an opportunity to harvest tax losses, rebalance duration and improve portfolio income without materially extending duration or relaxing credit standards. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

Performance Review

- The portfolio's long duration relative to the benchmark detracted from relative results in a rising rate environment. Yield curve positioning delivered mixed results with allocations to munis with 10 years or more year to maturity detracting from relative performance, while exposure to munis with five years or less to maturity was beneficial.
- Rating allocations also delivered mixed results. An overweight position in BBB rated bonds detracted from relative returns, as the rating class underperformed the broad municipal bond index. An underweight to AA rated munis also hindered relative returns as AA rated bonds outperformed the broad municipal index.
- Sector exposure held back relative results. The portfolio is weighted toward revenue bonds which fared worse than general obligation muni bonds during the quarter.

Outlook

- September's record supply and accelerating tax-loss selling tested market technicals, and the market struggled to absorb them. Munis trailed both Treasuries and corporates as yields rose across the curve and fund flows softened. Shorter-duration bonds held up better, as duration risk drove most of the losses. With supply likely to remain heavy, technicals will continue to be an important test of investor appetite, though recent repricing may help attract buyers.
- Economic and credit fundamentals remain broadly supportive. Census estimates released in September showed second-quarter 2026 state and local tax collections at record levels, reflecting resilient labor markets and healthy tax bases, and stronger revenues should help issuers absorb rising costs. However, conditions vary materially across regions and credits, and credit outcomes are becoming more divergent. Tension between monetary and fiscal policy is also emerging as a key issue to watch, and we see scope for further yield curve steepening.
- In our view, the selloff has made absolute yields and relative valuations more compelling. Municipal yields now offer a substantial premium over comparable Treasuries at intermediate and longer maturities on a taxable-equivalent basis, with the long end offering the best relative value. Higher starting yields give investors an opportunity to harvest tax losses, rebalance duration and improve portfolio income without materially extending duration or relaxing credit standards. We favor capturing income and prioritizing quality over depending on a view of lower rates or tighter spreads. In this environment, active management and disciplined security selection remain essential to identifying relative value and preserving portfolio quality.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of September 30, 2026-PRELIMINARY

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Net of Fees	-6.67	-4.54	-4.39	-3.12	2.81	—	—	—	—	—	1.78	11/30/2022
Pure Gross of Fees	-6.31	-3.82	-3.31	-1.66	4.35	—	—	—	—	—	3.31	11/30/2022
Benchmark	-6.35	-4.01	-4.18	-2.68	2.89	—	—	—	—	—	1.96	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg Municipal Bond Index

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).

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Past performance is not a guarantee of future results. An investment in this strategy can lose value. Please visit www.franklintempleton.com for the latest performance figures. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Fees: Periods less than one year are not annualized. Performance results are for the composite which includes all actual, fully discretionary accounts with substantially similar investment policies and objectives managed to the composite's investment strategy. Composite returns are stated in U.S. dollars and assume reinvestment of any dividends, interest income, capital gains, or other earnings. The composite may include account(s) that are gross of fees and pure gross of fees. "Pure" gross-of-fee returns do not reflect the deduction of any expenses, including transaction costs. A traditional (or "true") gross-of-fee return reflects performance after the reduction of transaction costs but before the reduction of the investment advisory fee. The gross-of-fee return may include a blend of "true" gross-of-fee returns for non-wrap accounts and "pure" gross-of-fee returns for wrap accounts. Net-of-fee returns is reduced by a model "wrap fee" (1.5% is the maximum anticipated wrap fee for fixed income portfolios) which includes trading expenses as well as investment management, administrative and custodial fees. The model wrap fee used represents the highest anticipated wrap fee applicable to the strategy. Actual fees and account minimums may vary.
For fee schedules, contact your financial professional, or if you enter into an agreement directly with Franklin Templeton Private Portfolio Group, LLC ("FTPPG"), refer to FTPPG's Form ADV Part 2A disclosure document. Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs.

What are the Risks?

All investments involve risks, including possible loss of principal. Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. Investments in **underlying funds** are subject to the same risks as, and indirectly bear the fees and expenses of, the underlying funds. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. **Active management** does not ensure gains or protect against market declines. Portfolios focused on a **single state** are subject to greater risk of adverse economic and regulatory changes than a geographically diversified portfolio.

Glossary

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

The **Federal Open Market Committee (FOMC)** is the branch of the Federal Reserve that dictates U.S. monetary policy, specifically targeting the federal funds rate and managing open market operations.

Revenue bonds are municipal bonds that finance income-producing projects and are secured by a specified revenue source.

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

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The **Bloomberg Municipal Bond Index** is a broad measure of the municipal bond market with maturities of at least one year.

Source: Bloomberg Indices.

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